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4 JUN 1963

MEMORANDUM FOR: Chief, Budget Division

SUBJECT : Financial Code Classification By Activity  
and Category

1. There are increasing demands for accumulation of budgetary data by activity or category (sub-activity) - by area, by country, by project. I am convinced that we can never satisfactorily meet these requirements by the "hand posted" methods now in use. I believe they can be met through machine accumulation, but to do so we must establish a classification system adaptable to machine operations and responsive to our requirements. This implies a certain loss of flexibility, requires more emphasis on detailed planning, and forces general agreement (within and without the Agency) on the classifications to be used.

2. The present classification system does not support our budget presentations. It identifies the following activities:



It does not contain any sub-activity or category classification. In the Plans Area it lumps essentially everything other than project costs into "Overhead" which must be distributed by percentage to the other activities for budget presentation. In the Intelligence and Support Areas, organizational structure provides a means of distributing support by sub-activity.

3. The budget as presented to the BOB and the Congress appears to be based upon an activity classification which does not, in fact, exist. From data classified in the above manner our most recent budget submission was presented using the following activity format:

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SUBJECT: Financial Code Classification By Activity and Category



This was accomplished through the percentage distribution of overhead to activities and the manual distribution of organizational data to appropriate activities (Logistics, for example, was distributed among almost all activities).

4. I believe the past few budget exercises have demonstrated that we can not "live" with this system. It results in budget presentations which have no basis in accounting records and which are essentially fabrications. You are only too familiar with the fact that differences between activities from one year to another can not be explained in any logical or supported basis and that any questions which might go beyond a superficial inquiry would inevitably become very embarrassing.

5. We had found earlier that it was too late to "correct" the present classification code for FY 1964. The Financial Code Committee is now at work on a revised code for FY 1965. We must, therefore, provide guidance to them if we are to have a means of progressing into machine methods in the budget process or a means of distributing support costs more adequately, both of which I'm sure you consider priority projects. I propose that this guidance be furnished in the form of a revised activity classification code which will also classify sub-activities or categories as follows:

ActivitiesCategories  
(Sub-activities)

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SUBJECT: Financial Code Classification By Activity and Category.

This proposal involves two principal developments:

a. An established activity classification by which we shall prepare, defend and, to a large extent, administer the Agency budget.

b. The classification of "support" costs by activity to the extent practicable.

6. The first of these I see as primarily a matter of agreeing upon a system and, in order to get the maximum benefit from it, sticking to that system. Some change will be inevitable through new developments, but we must make every effort to eliminate the changes which are due to lack of planning or to insufficient consideration at management levels within the Agency and the BOB. We can not otherwise avoid the incomparability of presentations which distort facts or impair the usefulness of the budget document. We should consider:

a. The adequacy of the activity list as a format for budget presentation - supplemented by supporting detail in category, organizational element, location and object.

b. The adequacy of the categories or sub-activities as the main sub-divisions of each activity with the identification, rather than concealment of true "support" costs.

7. The second is complementary and involves more realistic accounting for all support and overhead. It necessitates:

a. Solving the technical problems of identifying and properly classifying much of what has been formerly lumped together as Overhead or Support and relating these to their proper activities as far as possible.

b. Reflecting the remaining, more realistic support costs as such in the supporting detail to the budget

c. Adapting related controls such as staffing authorizations and project approvals to incorporate direct support personnel and costs.

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SUBJECT: Financial Code Classification By Activity and Category

8. Much of the work done in preliminary studies to determine how overhead costs should be charged under a new activity classification scheme will be useful in preparing a first budget estimate by that scheme but it will only be after actual data has been classified in the Agency accounts by that method for the "past" year of a budget presentation that the system will be truly operative. I see no particular problem in the Intelligence, Research or Support Areas although they do need to "gear" into the same system, which they almost naturally will. In the Plans Area, however, it could involve a considerable re-orientation. The adoption of this particular recommendation, of course, is not essential. All that matters is that we arrive at a common, reliable classification that we can live with for a while. The degree to which we can keep it relatively simple is also important because of the related procedural problem. With your approval I will proceed to discuss the proposal with:

- a. The other Budget Division Branches
- b. 
- c. 
- d. DD/P Budget Officers
- e. ADP Staff
- f. The Financial Code Committee

Chief, 

*Per Approved 4 June '63*

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29 July 1963

MEMORANDUM FOR: Chief, Budget Division

SUBJECT : Objective Classification for Budget Presentation

1. On 4 June I submitted to you a paper to initiate study of Agency "Financial Code Classification by Activity and Category" as a first step toward our machine application project. This memorandum covers a second phase of the project - the question of object class data.

2. Bureau of the Budget Circular A-11 establishes the object class breakdown required for budget estimates. We then establish the object class information to be required in support of office budget estimates in somewhat greater detail than that required by the BOB. Finally, all Agency expenditures are classified in the full sub-object classification code (now approximately 72 classes) to accumulate the data believed necessary to explain, analyze, or review Agency activities and operations. The object class detail required of the offices is, in effect, a compromise between the data required and the data available.

3. An Agency committee is now studying the Object Class Code. To provide them guidance, and to determine to some extent the direction in which our machine application project is to proceed, we need to establish the object class requirements for future budget exercises. These can then be numbered in the next code so that detail sub-objects will "roll up" into our budgetary object classes and our budgetary classes into the BOB required objects. A simple example in the "travel" classification might be:

<u>BOB</u>	<u>Budget</u>	<u>Expenditure Sub-objects</u>

4. In establishing the list for use in the preparation of budget estimates we should give careful consideration to:

a. The object class information essential for budgetary analysis as compared with the total detailed breakdown which will remain avail-

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**SUBJECT: Objective Classification for Budget Presentation**

able for statistical study. We should require only the data which will contribute to the usefulness of the budget document. We can always develop special data "on demand" by statistical analysis of expenditure data or by special studies without unduly complicating and confusing the budget presentation, particularly since the trend is obviously away from the "what" detail to the substantive reasons "why".

b. Budgetary object class data will be more valuable in direct proportion to its continuity and comparability. The analysis of comparable data over a period of years can be very revealing. Frequent or unwarranted changes can destroy much of its utility and offset anticipated improvements.

c. Some object classes may require further description in the proposed "stub" column of any budget estimate. Personal Services, for example, must be accompanied by position and A.E. data. For this reason they should be established at the time object class data is considered.

5. Attached is a sample listing of the object class and related data "stub" column proposed for consideration in a machine-oriented system of budget preparation. With your approval I will proceed to discuss it with:

- a. Object Class Committee
- b. Budget Division Branches
- c.
- d.
- e. ADP Staff

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6. I would emphasize again that the items used in the sample list itself are unimportant. It is essential only that a list be developed and that it contain the information we and the POS will desire.

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Attachment

BD/COMP  (29 Jul. '63)

Distribution:

- Orig - Addressee
- 1 - Chairman, Object Class Committee
- 1 - Chief, Fiscal Division
- 1 - Budget Div. Branches: 1 -
- 1 -  -  ADPS
- 2 - Budget Division (encl)

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VC.

9 August 1963

MEMORANDUM FOR: Chief, Budget Division

SUBJECT : Organizational and Geographic Indicators in the  
Agency Financial CodeREFERENCE : A. Memo dtd 4 June '63, subj: Financial Code  
Classification by Activity & Category  
B. Memo dtd 29 July '63, subj: Objective Classifi-  
cation for Budget Presentation

1. To complete our recommendations for the consideration of a revised Agency Financial Code for FY 1965, we must deal with the question of the organizational and geographic data desired. The existing code has been, for the most part, satisfactory in this respect although concessions were made in its design because of the original limitations of the columns available on the IBM card. These limitations are no longer binding, or at least should not restrict our consideration of an improved code.

2. Any revised Financial Code should make provision for the identification of costs by organization in varying degrees of detail. Deputy Directors will be interested in costs by Office. Office heads will be concerned with the detail making up their total. As a minimum, data should be classified:

- a. By major office (EE Div., OCR, or Commo)
- b. By sub-office [redacted]

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Projects may fall into either organizational or functional patterns. Such "projects" as [redacted] will naturally be considered as organizational breakdowns while others may be classified as functional sub-divisions of activity categories.

3. The Bureau of the Budget as well as Agency officials also express great interest in geographic data - in the analysis of Agency effort by

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SUBJECT: Organizational and Geographic Indicators in the Agency  
Financial Code

location. For this purpose the Code should reflect:



As in the past, these data should indicate the location of our effort. At the same time, we should provide enough flexibility in the code to accommodate at a later date classification as to target. At this time, we do not have sufficient resolution of the "target" requirement to enlarge upon it.

4. These considerations also will be pursued and discussed with:

- a. The Financial Code Committee
- b. Budget Division Branches
- c. ADP Staff
- d. Other Offices

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Chief,



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Foregoing material distributed  
for action (as indicated below) by  
this memo

Subj'd copy is  
filed in  
Financial Code  
Committee File

15 August 1963

## MEMORANDUM FOR:

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SUBJECT : Machine Accumulation of Budgetary Data

1. As a first step toward simplifying and improving the physical processes of collection and accumulation of budgetary data by machine or computer methods, we had recommended consideration of a revised Activity and Category (sub-activity) Classification for the Financial Code (See Tab A). We have made other proposals dealing with the detail desired in object classes (Tab B) as well as for organizational and geographic data (Tab C). It is, however, the establishment of a logical, common program or activity classification system which is of primary concern to the various Agency elements.

2. The major problem of adaptation may exist in the Plans Area with its large undistributed support accounts. However, if we are to arrive at a reliable classification of activities that we can use for both accountings and budgeting over a reasonable period of time, we must develop a system which is responsive to the needs of all elements.

3. The list illustrated in Tab A is tentative - for example, it is already apparent that a "Photographic" category should be added to the Technical Collection activity.

4. I would suggest that you consider the proposals within your own areas of interest, solicit comments or recommendations from your offices, and reach tentative conclusions by 31 October 1963 for incorporation or consideration in our final recommendation. I'll be happy to assist in any way I can, and if a joint briefing on the over-all long range project would be helpful, such a briefing can be given.

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Chief,

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Attachment - Tab A, B, C

*Distribution*  
2 - Addressees

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Chief Budget  
DC Budget

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Each DDP analyzed  
Each office of  
all components  
Budget Div.  
CS Br. Bd

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DD/S LONG RANGE PLANNING (INITIAL INPUT)

FY 1966

FY 1967

FY 1968

FY 1969

FY 1970

FY 1971-1975

FY 1976-1980

7 books

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